

■ REPORT OF THE AUDITOR GENERAL



**REPORT OF THE AUDITOR-GENERAL
TO THE MEMBERS OF THE COUNCIL
ON THE FINANCIAL STATEMENTS OF
MBOMBELA LOCAL MUNICIPALITY
FOR THE YEAR ENDED 30 JUNE 2005**



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MUNICIPALITY**

FOR

THE YEAR ENDED 30 JUNE 2005



A U D I T O R - G E N E R A L

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REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS OF THE COUNCIL ON THE FINANCIAL STATEMENTS OF MBOMBELA LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2005

1. AUDIT ASSIGNMENT

The financial statements as set out on pages .. to .., for the year ended 30 June 2005, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.



Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

Mbombela Local Municipality has opted for early implementation of Generally Recognised Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP). Although the effective dates of application of these standards, also referred to in my audit opinion in paragraph 4 below, have not yet been gazetted by the Minister of Finance, they have been recommended for implementation by the Accounting Standards Board and the National Treasury.

3. QUALIFICATION

3.1 Property, plant and equipment

The fixed asset register was incomplete with regard to the descriptions and locations of assets. The municipality's records did not permit the application of alternative auditing procedures. Consequently, I was unable to obtain all the information and explanations I consider necessary to satisfy myself as to the existence, completeness, valuation, ownership, presentation and disclosure of property, plant and equipment and the completeness and accuracy of the depreciation charge in the income statement.



3.2 Suspense accounts

Included in creditors on the balance sheet are the following accounts:

- Bank reconciliation suspense account amounting to R3 968 744
- Creditors work in progress suspense account amounting to R1 821 153
- Consumer suspense account amounting to R5 587 999

The municipality did not maintain supporting documentation relating to these accounts. Consequently, I did not obtain all the information and explanations I consider necessary to satisfy myself as to the existence, accuracy, presentation and disclosure of these accounts.

3.3 Inventory

I did not observe the counting of the physical inventories at year-end, as this was done prior to my appointment as auditor. The municipality's records did not permit the application of alternative auditing procedures. Consequently, I was unable to satisfy myself as to the existence of inventory.

3.4 Bad debt provision expense

The municipality allocated an increase in the bad debt provision amounting to R8 715 295 directly to the unappropriated surplus. This resulted in the net surplus for the year being overstated by this amount.



4. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in paragraph 3, the financial statements fairly present, in all material respects, the financial position of Mbombela Local Municipality at 30 June 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting practice as disclosed in the basis of preparation and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), as amended (MFMA).

5. EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

5.1 Presentation and disclosure of debtors ageing in note 11

The consumer debtors' age analysis as disclosed in note 11 to the financial statements does not agree to the debtors list disclosed in the same note. Note 11 to the financial statements discloses the particulars of and the reasons for the difference.

5.2 Non-compliance with laws and regulations

Instances were identified where the municipality did not comply with the MFMA, Municipal Structures Act, 1998 (Act No. 117 of 1998) (MSA), Municipal Systems Act (Act No. 32 of 2000) (MSysA), Public Service Regulations (PSR) and Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997) (BCE). The following significant instances were identified:



5.2.1 Bonuses paid

Section 57(4)(b) of the MSA states that performance bonuses may only be paid after an evaluation of performance and approval of such evaluation by the municipal council. The municipal manager and all directors received performance bonuses in February 2005. No evaluation and approval of performance by the council took place, as required by the said act.

5.2.2 Overtime

Part V(D) of the PSR determines that overtime remuneration should not constitute more than 30% of the employee's monthly salary. Section 10(1)(b) of the BSC states that an employer should not require or permit an employee to work more than ten hours overtime per week. A large number of overtime payments were not in accordance with these regulations.

In addition, section 10(1)(a) of the BCE states that an employer may not require or permit an employee to work overtime except in accordance with an agreement. The agreement may not require or permit an employee to work more than 12 hours on any day. For all employees selected, the working of overtime was not discussed in the contract of employment or any other agreement.

5.2.3 Contracted services: agreement with Botmac Mbombela (Pty) Ltd

Section 116(2)(a) of the MFMA states that the accounting officer of a municipality or municipal entity must take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity is properly enforced. After the review of the agreement and various reports, it came to my attention that Botmac Mbombela (Pty) Ltd has been in breach of the terms and conditions



of its agreement since June 2004. The following obligations in terms of section 3.1 of the agreement were not fulfilled:

- Seven cameras were not functioning
- Website – internet viewing of violation
- Easy payment system – drive through, ABSA, Internet, etc.
- Call centre for following up outstanding violations
- Preventative maintenance and repairs reporting

Only in December 2004 was Botmac Mbombela (Pty) Ltd put in default by way of written notice in terms of section 12.1.3 of the agreement, to comply within seven working days or the agreement shall be terminated. Botmac Mbombela (Pty) Ltd is still in breach of the terms and conditions of the agreement and up to date the agreement has still not been terminated.

In addition, the contract does not comply with the guidelines for private sector involvement in providing administrative and logistical support to local authority traffic departments, as issued by the Office of the Deputy National Director of Public Prosecutions. Section 4.1 prohibits that traffic fines, or parts thereof, be paid to a private sector organisation as direct remuneration for any services, equipment or logistical support.

5.2.4 Tariff policy

The municipality has not implemented a tariff policy on the levying of fees for services, as required by section 74(1) of the MSysA. The policy is still in draft format and was expected to be finalised in October 2005.



5.2.5 Credit control and debt collection

Section 64(2)(a) of the MFMA requires that the accounting officer must take all reasonable steps to ensure that the municipality has effective revenue collection systems consistent with section 96 of the MSysA as well as the municipality's credit control and debt collection policy. The credit control and debt collection department was not working effectively throughout the period, as indicated by the following:

- Strict credit control policies were not applied.
- A number of posts were vacant throughout the financial year.
- The credit control department lost control over debt collection since it did not keep record of debtors handed over to lawyers for collection.
- Large provisions for bad debt were made.

6. APPRECIATION

The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.


ND Maphiri for Auditor-General

Nelspruit

30 November 2005

